

EMMETSBURG MUNICIPAL UTILITIES
EMMETSBURG, IOWA
COMPONENT UNIT FINANCIAL STATEMENTS
JUNE 30, 2014

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EMMETSBURG MUNICIPAL UTILITIES

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Paul Saxton	Board Member	Dec. 31, 2015
Deb Davis	Board Member	Dec. 31, 2016
Nick Steinkamp	Board Member	Dec. 31, 2018
Rick Brennan	Board Member	Dec. 31, 2014
Laurie Schneider	Board Member	Dec. 31, 2017
John Bird	City Administrator/Superintendent	
John D. Brown	Attorney	

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Emmetsburg Municipal Utilities
Emmetsburg, Iowa

Report on the Financial Statements

We have audited the accompanying combining statement of net position of the Emmetsburg Municipal Utilities, a component unit of the City of Emmetsburg, Iowa, as of and for the year ended June 30, 2014, and the related combining statement of revenues, expenses and changes in net position, and combining statement of cash flows for the year then ended, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Utilities' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion

The Utilities' capital assets policies, as described in Note 1D, do not conform to accounting principles generally accepted in the United States of America. In addition, as described in Note 8 to the financial statements, the Utilities' did not implement GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other Than Pensions. The amount by which these departures would affect the component unit financial statements referred to above has not been determined.

Qualified Opinion

In our opinion, except for the effects of the matters described in the "Basis for Qualified Opinion" paragraph, the component unit financial statements referred to above present fairly, in all material respects, the financial position of

the Emmetsburg Municipal Utilities as of June 30, 2014, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements present only the Municipal Utilities' component unit and do not purport to, and do not, present fairly the financial position of the City of Emmetsburg, Iowa, as of June 30, 2014 and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require Management's Discussion and Analysis and the Budgetary Comparison Schedule of Revenues, Expenses, and Changes in Net Assets – Budget and Actual on pages 4-9 and 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the aforementioned financial statements taken as a whole. The combining schedule of operating expenses on page 21 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the effects of the matters described in the "Basis for Qualified Opinion" paragraph, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 2, 2015, on our consideration of the Emmetsburg Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utilities' internal control over financial reporting and compliance.

Burdorf, Parrott And Associates, P.C.

Emmetsburg, Iowa
February 2, 2015

Management's Discussion and Analysis

Our discussion and analysis of the Emmetsburg Municipal Utilities financial performance provides an overview of the Utilities' financial activities for the year ended June 30, 2014. Please read it in conjunction with the Utilities' financial statements, which follow.

Financial Highlights

- The Utilities' net position decreased \$28,906 or 2.3%.
- The Utilities' change in net position as a percentage of total ending assets was 1.8%.
- The Utilities' total revenues were \$3,860,478 in 2014 compared to \$3,093,643 in 2013. This \$766,835 increase in revenues resulted primarily from an increase in Gas fund natural gas billings, due to winter and spring conditions.
- During the year ended June 30, 2014, the Utilities had total expenses, excluding depreciation, of \$3,312,699 compared to \$2,497,038 for the year ended June 30, 2013. The increase in expenses of \$815,661 is primarily related to a \$669,874 increase in the cost of material, supplies and maintenance, which included increased natural gas purchased.

Using This Annual Report

This annual report consists of a series of financial statements. The Combining Statement of Net Position, the Combining Statement of Revenues, Expenses and Changes in Net Position and Combining Statement of Cash flows (on pages 10 and 12) provide information about the activities of the Utilities as a whole. Fund financial statements report the Utilities' operations in more detail than the government-wide financial statements by providing information about each of the Utilities' funds.

Reporting the Funds Maintained by the Utilities as a Whole

Our analysis of the funds maintained by the Utilities as a whole begins on page 10. One of the most important questions asked about the Utilities' finances is, "Is the Emmetsburg Municipal Utilities as a whole better off or worse off as a result of the year's activities?" The Combining Statement of Net Position and Combining Statement of Revenues, Expenses and Changes in Net Position report information about the Utilities as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Utilities' net position and changes in it. You can think of the Utilities' net position (the difference between assets and liabilities) as one way to measure the Utilities' financial health, or financial position. Over time, increases or decreases in the Utilities net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as the condition of the Utilities' infrastructure, to assess the overall health of the Utilities.

In the Combining Statement of Net Position and the Combining Statement of Revenues, Expenses and Changes in Net Position, we show one kind of activity, a business-type activity.

Business-type activities show revenues earned, resources provided for, and expenses incurred for the provision of gas, water and sewer services to the City of Emmetsburg.

Reporting the Most Significant Funds Maintained by the Utilities

Fund Financial Statements

All the funds are major funds. The fund financial statements begin on page 10 and provide detailed information about the most significant funds, not the Utilities as a whole. The Utilities' funds use the following accounting approaches:

Proprietary funds - All of the Utilities' expenses incurred is for the cost of gas, water and sewer services reported in a proprietary fund. When the City charges customers for the services it provides, these services are reported in a proprietary fund. Proprietary funds are reported in the same way that all activities are reported in the Combining Statement of Net Position and the Combining Statement of Revenues, Expenses and Changes in Net Position. In fact, the Utilities' enterprise funds are the same as the business-type activities we report in the government-wide financial statements, but provide more detail and additional information, such as cash flows.

The Funds Maintained by the Utilities as a Whole

For the years ended June 30, 2014 and 2013, net assets changed as follows:

Summary of Operations and Changes in Net Position

	2014	2013
Operating revenues	\$ 3,850,059	3,058,436
Operating expenses	<u>3,585,909</u>	<u>2,839,054</u>
Operating income	264,150	219,382
Non-operating revenues (expenses)	(119,833)	(98,057)
Capital contributions	-	-
Transfers to Primary Government	<u>(173,223)</u>	<u>(97,574)</u>
Net increase (decrease) in net position	<u>\$ (28,906)</u>	<u>23,751</u>

Summary of Net Position

	2014	2013
Assets:		
Current and noncurrent assets	\$ 6,221,174	6,074,087
Capital assets	<u>10,283,747</u>	<u>10,650,709</u>
Total assets	<u>\$ 16,504,921</u>	<u>16,724,796</u>
Liabilities:		
Current liabilities	\$ 853,620	813,865
Noncurrent liabilities	<u>3,135,681</u>	<u>3,366,415</u>
Total liabilities	3,989,301	4,180,280
Net assets:		
Net Investment in capital assets	6,916,244	7,057,753
Unreserved	<u>5,599,376</u>	<u>5,486,773</u>
Total liabilities and net position	<u>\$ 16,504,921</u>	<u>16,724,796</u>

Summary of Revenues

	2014	2013
Operating:		
Residential sales	\$ 1,562,597	1,212,990
Commercial sales	1,233,022	982,288
Public authority sales	310,027	234,742
Customer fees	625,235	529,096
Interfund services provided	57,110	37,524
Penalties	9,846	7,342
Other	52,222	54,454
Total operating	3,850,059	3,058,436
Non-operating revenues:		
Interest income	10,419	10,473
Proceeds from risk under guarantee	-	24,734
Total revenues	\$ 3,860,478	3,093,643

For the funds maintained by the Utilities, total revenues for June 30, 2014 increased by \$766,835 from total revenues for the year ended June 30, 2013. The increase in revenue was primarily due to an in Gas fund natural gas billings, due to a return of normal winter heating conditions.

Summary of Expenses

	2014	2013
Operating:		
Personal services	\$ 462,949	441,923
Contractual	353,295	325,813
Materials, supplies and maintenance	1,998,266	1,328,392
Utilities	119,980	101,857
Depreciation	576,685	572,854
Uncollectible accounts	5,828	1,317
Interfund services provided	68,906	66,898
Total operating	3,585,909	2,839,054
Interest expense	121,752	130,764
Donations	2,500	2,500
Industrial development incentive forgivable loan	6,000	-
Total expense	\$ 3,716,161	2,972,318

Payments to primary government for taxes and donations of \$173,223 are reported in non-operating revenues in the combining statement of revenues, expenses and changes in net position. This represents transfers that represent payments in lieu of taxes and donations to various funds such as donations for economic development. This amount is not recorded above because it is more representative of a transfer between funds than an expense. However, under governmental accounting it is shown as an expense.

The total expenses increased by \$743,843 from the prior year, due primarily to the \$669,874 increase in the cost of material, supplies and maintenance, which included increased natural gas purchased.

Capital Asset and Debt Administration

Capital Assets

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Gas Department:				
Land	\$ 1,039	-	-	1,039
Structures & plant	342,097	-	-	342,097
Distribution system	1,135,609	-	-	1,135,609
Equipment, meters & mains	600,930	41,189	-	642,119
Total capital asset costs	2,079,675	41,189	-	2,120,864
Less accumulated depreciation	(1,490,018)	(50,543)	-	(1,540,561)
Gas Department capital assets, net	\$ 589,657	(9,354)	-	580,303
Water Department:				
Land	\$ 67,067	-	-	67,067
Structures & plant	4,968,888	-	-	4,968,888
Distribution system	1,856,286	99,257	-	1,955,543
Equipment, meters & mains	655,563	85,799	9,750	731,612
Construction in progress	11,183	-	11,183	-
Total capital asset costs	7,558,987	185,056	20,933	7,723,110
Less accumulated depreciation	(3,051,205)	(260,049)	1,383	(3,309,873)
Water Department capital assets, net	\$ 4,507,782	(74,993)	19,552	4,413,237
Sanitation Department:				
Land	\$ 84,542	-	-	84,542
Structures & plant	6,086,835	-	-	6,086,835
Distribution system	2,869,215	-	-	2,869,215
Equipment, meters & mains	476,121	3,029	-	479,150
Construction in progress	-	-	-	-
Total capital asset costs	9,516,713	3,029	-	9,519,742
Less accumulated depreciation	(3,963,443)	(266,092)	-	(4,229,535)
Sanitation Department capital assets, net	\$ 5,553,270	(263,063)	-	5,290,207

	Balance July 1, 2012	Additions	Disposals	Balance June 30, 2013
Gas Department:				
Land	\$ 1,039	-	-	1,039
Structures & plant	340,715	1,382	-	342,097
Distribution system	1,135,609	-	-	1,135,609
Equipment, meters & mains	915,778	24,432	339,280	600,930
Total capital asset costs	2,393,141	25,814	339,280	2,079,675
Less accumulated depreciation	(1,768,376)	(60,922)	339,280	(1,490,018)
Gas Department capital assets, net	<u>\$ 624,765</u>	<u>(35,108)</u>	<u>-</u>	<u>589,657</u>
Water Department:				
Land	\$ 67,067	-	-	67,067
Structures & plant	4,976,173	1,381	8,666	4,968,888
Distribution system	1,859,086	-	2,800	1,856,286
Equipment, meters & mains	689,167	42,869	76,473	655,563
Construction in progress	-	11,183	-	11,183
Total asset capital costs	7,591,493	55,433	87,939	7,558,987
Less accumulated depreciation	(2,892,296)	(246,848)	87,939	(3,051,205)
Water Department capital assets, net	<u>\$ 4,699,197</u>	<u>(191,415)</u>	<u>-</u>	<u>4,507,782</u>
Sanitation Department:				
Land	\$ 84,542	-	-	84,542
Structures & plant	6,085,494	1,380	-	6,086,835
Distribution system	2,869,215	-	-	2,869,215
Equipment, meters & mains	650,463	83,225	257,567	476,121
Construction in progress	-	-	-	-
Total capital asset costs	9,689,714	84,605	257,606	9,516,713
Less accumulated depreciation	(3,955,965)	(265,084)	257,606	(3,963,443)
Sanitation Department capital assets, net	<u>\$ 5,733,749</u>	<u>(180,479)</u>	<u>-</u>	<u>5,553,270</u>

Depreciation expense for each department is presented on page 11.

Debt

Net debt decreased during the year ended June 30, 2014 by \$225,453, due to scheduled debt service payments.

Economic Factors and Next Year's Budget and Rates

Several economic factors affected decisions made by the Utilities in setting its fiscal 2014 budget. Due to the Utilities' large concentration of residential customers, weather normally impacts revenue to a greater degree than do economic cycles. Also, fluctuations in the natural gas market make it extremely difficult to budget gas costs and gas revenues. The 2014 budget failed to anticipate increases in natural gas billings, due to a normal winter and extended spring. The Utilities' fiscal 2015 budget has increased from fiscal 2014, due primarily to estimates related to natural gas markets and billings.

Contacting the Utilities Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Utilities' finances and to show the Utilities' accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Administrator's Office at 2021 Main, Emmetsburg, Iowa.

John Bird

City Administrator/Superintendent

Emmetsburg Municipal Utilities
Component Unit of the City of Emmetsburg, Iowa
Combining Statement of Net Position
Business-Type Activities
June 30, 2014

Assets	Gas Fund	Water Fund	Sanitation Fund	Total
Current assets:				
Cash and cash equivalents	\$ 4,709,858	663,279	223,400	5,596,537
Accounts receivable	92,414	107,485	91,582	291,481
Current portion of notes receivable	4,000	-	-	4,000
Other receivables	-	4,479	-	4,479
Accrued billing	4,107	7,829	7,246	19,182
Interfund receivable	18,396	3,227	43,536	65,159
Current portion of primary government - Urban Renewal Tax Increment Revenue Bond	1,355	1,581	1,581	4,517
Inventory	20,973	-	-	20,973
Prepaid expenses	10,829	23,006	27,835	61,670
Total current assets	<u>4,861,932</u>	<u>810,886</u>	<u>395,180</u>	<u>6,067,998</u>
Noncurrent assets:				
Restricted assets - cash and cash equivalents	63,031	13,850	-	76,881
Notes receivable	35,000	-	-	35,000
Due from primary government - Urban Renewal Tax Increment Revenue Bond	2,814	3,283	3,283	9,380
Loan fees (net of \$18,485 amortization)	-	19,500	12,415	31,915
Total noncurrent assets	<u>100,845</u>	<u>36,633</u>	<u>15,698</u>	<u>153,176</u>
Capital assets:				
Land	1,039	67,067	84,542	152,648
Structures and plant	342,097	4,968,888	6,086,835	11,397,820
Distribution system	1,135,609	1,955,543	2,869,215	5,960,367
Equipment, meters and mains	642,119	731,612	479,150	1,852,881
	<u>2,120,864</u>	<u>7,723,110</u>	<u>9,519,742</u>	<u>19,363,716</u>
Less: Accumulated depreciation	<u>(1,540,561)</u>	<u>(3,309,873)</u>	<u>(4,229,535)</u>	<u>(9,079,969)</u>
Net capital assets	<u>580,303</u>	<u>4,413,237</u>	<u>5,290,207</u>	<u>10,283,747</u>
Total assets	<u>\$ 5,543,080</u>	<u>5,260,756</u>	<u>5,701,085</u>	<u>16,504,921</u>

See notes to the financial statements.

Liabilities and Net Position	Gas Fund	Water Fund	Sanitation Fund	Total
Current liabilities:				
Accounts payable	\$ 49,080	28,647	8,290	86,017
Other liabilities payable	5,477	-	-	5,477
Current portion of long-term debt	6,822	130,000	95,000	231,822
Accrued vacation pay	1,992	6,566	1,184	9,742
Accrued interest payable	9,076	4,600	2,952	16,628
Interfund payable	3,227	52,254	9,678	65,159
Customer deposits	63,031	13,850	-	76,881
Due to primary government	133,175	114,360	114,359	361,894
Total current liabilities	271,880	350,277	231,463	853,620
Long-term debt (net of current portion above)	280,681	1,710,000	1,145,000	3,135,681
Total liabilities	552,561	2,060,277	1,376,463	3,989,301
Net Position:				
Net Investment in capital assets	292,800	2,573,237	4,050,207	6,916,244
Unrestricted	4,697,719	627,242	274,415	5,599,376
Total net position	4,990,519	3,200,479	4,324,622	12,515,620
 Total liabilities and net position	 \$ 5,543,080	 5,260,756	 5,701,085	 16,504,921

Emmetsburg Municipal Utilities
Component Unit of the City of Emmetsburg, Iowa
Combining Statement of Revenues, Expenses
and Changes in Net Position
Business-Type Activities
Year Ended June 30, 2014

	Gas Fund	Water Fund	Sanitation Fund	Total
Operating revenues:				
Residential sales	\$ 1,095,932	253,523	213,142	1,562,597
Commercial sales	841,524	217,733	173,765	1,233,022
Public authority sales	256,751	33,044	20,232	310,027
Customer fees	140,529	194,532	290,174	625,235
Interfund services provided	51,919	3,947	1,244	57,110
Penalties	9,846	-	-	9,846
Other	15,373	21,424	15,425	52,222
Total operating revenues	<u>2,411,874</u>	<u>724,203</u>	<u>713,982</u>	<u>3,850,059</u>
Operating expenses:				
Personal services	141,780	148,394	172,775	462,949
Contractual	137,720	88,707	126,868	353,295
Materials, supplies and maintenance	1,688,259	182,492	127,515	1,998,266
Utilities	8,135	40,973	70,872	119,980
Depreciation	50,543	260,049	266,093	576,685
Uncollectible accounts	1,835	2,743	1,250	5,828
Interfund services used	39,208	14,849	14,849	68,906
Total operating expenses	<u>2,067,480</u>	<u>738,207</u>	<u>780,222</u>	<u>3,585,909</u>
Operating income	<u>344,394</u>	<u>(14,004)</u>	<u>(66,240)</u>	<u>264,150</u>
Non-operating revenues and (expenses):				
Interest income	8,391	1,379	649	10,419
Interest expense	(15,174)	(65,205)	(41,373)	(121,752)
Donations	(2,500)	-	-	(2,500)
Industrial development incentive forgivable loan	(6,000)	-	-	(6,000)
Payments to Primary Government for taxes and donations	(153,589)	(9,817)	(9,817)	(173,223)
Total non-operating revenues (expenses)	<u>(168,872)</u>	<u>(73,643)</u>	<u>(50,541)</u>	<u>(293,056)</u>
Income (loss) before transfers	<u>175,522</u>	<u>(87,647)</u>	<u>(116,781)</u>	<u>(28,906)</u>
Transfers from (to):				
Utilities	<u>4,500</u>	<u>33,124</u>	<u>(37,624)</u>	<u>-</u>
Change in net position	<u>180,022</u>	<u>(54,523)</u>	<u>(154,405)</u>	<u>(28,906)</u>
Net position at beginning of year	<u>4,810,497</u>	<u>3,255,002</u>	<u>4,479,027</u>	<u>12,544,526</u>
Net position at end of year	<u>\$ 4,990,519</u>	<u>3,200,479</u>	<u>4,324,622</u>	<u>12,515,620</u>

See notes to the financial statements.

	Gas Fund	Water Fund	Sanitation Fund	Total
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ 344,394	(14,004)	(66,240)	264,150
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	50,543	260,049	266,093	576,685
(Increase) decrease in operating assets:				
Accounts and other receivables	(84,348)	(18,429)	(22,638)	(125,415)
Accrued billing	(421)	(533)	(303)	(1,257)
Interfund receivable	(845)	(119)	-	(964)
Inventory	(20,973)	-	-	(20,973)
Prepaid expenses	(3,578)	(4,443)	(5,687)	(13,708)
Increase (decrease) in operating liabilities:				
Accounts payable	(7,526)	(9,817)	(11,733)	(29,076)
Other liabilities	1,044	-	-	1,044
Accrued vacation pay	(1,289)	76	(1,635)	(2,848)
Interfund payable	119	481	365	965
Customer deposits	694	175	-	869
Net cash provided by operating activities	\$ 277,814	213,436	158,222	649,472

Emmetsburg Municipal Utilities
Component Unit of the City of Emmetsburg, Iowa
Combining Statement of Cash Flows
Business-Type Activities
Year Ended June 30, 2014

	Gas Fund	Water Fund	Sanitation Fund	Total
Cash flows from operating activities:				
Cash received from customers	\$ 2,258,672	677,302	673,123	3,609,097
Cash payments to suppliers for goods and services	(1,865,147)	(326,432)	(342,675)	(2,534,254)
Cash payments to employees for services	(143,069)	(148,318)	(174,410)	(465,797)
Cash received for interfund services provided	51,074	3,828	1,244	56,146
Cash paid for interfund services used	(39,089)	(14,368)	(14,485)	(67,942)
Other income	15,373	21,424	15,425	52,222
Net cash provided by operating activities	<u>277,814</u>	<u>213,436</u>	<u>158,222</u>	<u>649,472</u>
Cash flows from noncapital financing activities:				
Cash from or to primary government funds	79,081	(7,301)	(7,302)	64,478
Collection of loan receivable - primary government	1,322	1,542	1,542	4,406
Donations	(2,500)	-	-	(2,500)
Transfers from or to Utilities	4,500	33,124	(37,624)	-
Transfers from or to primary government funds	(153,589)	(9,817)	(9,817)	(173,223)
Net cash provided (used) by noncapital financing activities	<u>(71,186)</u>	<u>17,548</u>	<u>(53,201)</u>	<u>(106,839)</u>
Cash flows from capital and related financing activities:				
Loan payments	(5,453)	(126,000)	(94,000)	(225,453)
Interest and loan fees paid	(15,423)	(63,895)	(40,861)	(120,179)
Acquisition and construction of capital assets	(41,189)	(165,504)	(3,030)	(209,723)
Net cash provided (used) for capital and related financing activities	<u>(62,065)</u>	<u>(355,399)</u>	<u>(137,891)</u>	<u>(555,355)</u>
Cash flows from investing activities:				
Interest on cash investments and notes receivable	8,391	1,379	649	10,419
Collection of notes receivable from others	6,973	-	-	6,973
Net cash provided (used) by investing activities	<u>15,364</u>	<u>1,379</u>	<u>649</u>	<u>17,392</u>
Net increase (decrease) in cash and cash equivalents	<u>159,927</u>	<u>(123,036)</u>	<u>(32,221)</u>	<u>4,670</u>
Cash and cash equivalents, beginning of year	<u>4,612,962</u>	<u>800,165</u>	<u>255,621</u>	<u>5,668,748</u>
Cash and cash equivalents, end of year	<u>\$ 4,772,889</u>	<u>677,129</u>	<u>223,400</u>	<u>5,673,418</u>
Reconciliation:				
Cash and cash equivalents				
Unrestricted and undesignated	\$ 4,709,858	663,279	223,400	5,596,537
Restricted	63,031	13,850	-	76,881
	<u>\$ 4,772,889</u>	<u>677,129</u>	<u>223,400</u>	<u>5,673,418</u>

See notes to the financial statements.

Emmetsburg Municipal Utilities

Component Unit of the City of Emmetsburg, Iowa

Notes to the Financial Statements

1. Summary of Significant Accounting Policies

Financial Reporting Entity

The Emmetsburg Municipal Utilities is the component unit of the City of Emmetsburg, Iowa. It consists of three funds, including the Gas department, the Water department and the Sanitation department. The Utilities do not purport to, and do not, present fairly the financial position of the City of Emmetsburg, Iowa as of June 30, 2014, and the changes in its financial position and cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting Policies

The Utilities apply generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The accounting policies of the Utilities conform to generally accepted accounting principles as applicable to governments, except as noted below. The following is a summary of the significant policies:

A. Fund Accounting

The accounts of the Utilities are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net position, revenues, and expenses. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in the report, under the Proprietary fund category.

Proprietary Funds

Proprietary funds are accounted for by using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining cost as a means of maintaining the capital investment and management control. Revenues are recognized when earned and expenses are recognized when incurred.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing, and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating revenues of enterprise funds are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets.

All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

B. Cash and Cash Equivalents

All short-term investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months. The Utilities maintains a cash and investment pool that is available for use by all funds. Deposits are stated at cost.

The carrying amount of the Utilities' deposits at June 30, 2014 was \$5,673,418, and the bank balance was \$5,637,673. The bank balance was covered by Federal Depository Insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa.

The Utilities is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Utility Board and the treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and, certain joint investment trusts.

C. Accounts and Notes Receivable

Trade accounts and notes receivable are reported at their estimated net realizable value. Collection losses have historically been immaterial, and the Utilities, based on its review of material balances outstanding, have elected no valuation allowance at June 30, 2014. The Utilities typically will write off any balance that remains after it has exhausted all reasonable collection efforts and concludes that additional collection efforts are not cost-justified.

D. Capital Assets and Long-Term Liabilities

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and liabilities (whether current or non-current) associated with Utilities activity are included on their Combining Statement of Net Position. The Utilities' reported net position is segregated into net investment in capital assets and unrestricted.

No detailed depreciation schedule or continuing property record is maintained. Consequently, it is impossible to use generally accepted accounting principles for retirements or abandonment of capital assets. Salaries paid for plant investment have been expensed at the time of payment. Vehicle expense and overhead related to construction is not capitalized. Under generally accepted accounting principles, salaries, vehicle expenses and overhead related to construction should be capitalized.

Depreciation of all exhaustible capital assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on the proprietary fund Combining Statement of Net Position. Depreciation has been provided over a range of estimated useful lives using the straight-line method as follows:

Structure and Plant	20 – 50 years
Distribution System	50 years
Equipment, Meters and Mains	3 – 50 years

E. Designated funds

Designated funds include cash set aside by the Board of Trustees specifically designated for future capital improvements or other special future expenses, over which the board retains control and may at its discretion subsequently use for other purposes.

F. Pension and Retirement Benefits

The Utilities contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P. O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 5.95% of their annual covered salary and the Utilities is required to contribute 8.937% of annual covered payroll. Contribution requirements are established by State statute. The Utilities contribution to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$34,802, \$31,604 and \$26,678, respectively, equal to the required contributions for the year.

G. Vacation and Sick Pay

Utility employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use. Vacation pay is recorded as an accrued liability when earned and sick pay is not recognized as an expense until paid.

2. Notes Receivable

On October 15, 2008, the Utilities entered into a loan agreement with a local manufacturing business to loan the business \$37,500. The note was non-interest bearing and was receivable in monthly installments of \$658, with a maturity date of October 15, 2013. The note was paid in full during fiscal 2014..

On October 18, 2012, the Utilities entered into a loan agreement with a local manufacturing business to loan the business \$50,000, which includes a \$20,000 low-interest loan component and a \$30,000 forgivable loan component. Both loans required the borrower to maintain a minimum of 20 full-time equivalent (FTE) jobs.

- The low-interest loan bears interest at the rate of 1.50% per annum and is receivable in quarterly principal installments of \$1,000, with a maturity date of December 31, 2017.
- The forgivable loan balance is forgivable over the five year term of the note. At the end of each 12 month period and upon proof of providing 20 FTE jobs, \$6,000 in principal will be forgiven. If during any individual year during the five year note, the number of FTE employees drops below 20, \$6,000 of the forgivable loan amount will be added to the low-interest loan bearing interest at the rate of 1.50% per annum, with future loan payments adjusted accordingly. During fiscal 2014, a \$6,000 principal payment was forgiven.

The principal balance receivable for the two loans totaled \$39,000 at June 30, 2014.

3. Primary Governments - Urban Renewal Tax Increment Revenue Bond Receivable

The City of Emmetsburg issued the Emmetsburg Municipal Utilities a \$40,000 Urban Renewal Tax Increment Revenue Bond dated October 11, 2006. Principal on this Bond shall bear interest at the rate of 4% per annum, which was modified effective June 1, 2013 to 2.50% per annum. The Bond is due in 20 equal semi-annual installments of \$2,508 each December 1 and June 1, commencing December 1, 2007. The Bond matures on June 1, 2017. The principal balance receivable totaled \$13,897 at June 30, 2014.

4. Designated funds

The composition of Board designated funds included in cash and cash equivalents, at June 30, 2014 is as follows:

	<u>Gas</u>	<u>Water</u>	<u>Sanitation</u>
Capital Improvements and Replacement	\$ 2,503,754	288,274	175,222
Community Center	150,000	-	-
Downtown Revitalization	125,000	-	-
Medical Reimbursement	39,733	4,138	4,137
Industrial Development	283,231	331,082	24,850
	<u>\$ 3,101,718</u>	<u>623,494</u>	<u>204,209</u>

5. Restricted Assets – Cash and Cash Equivalents

Restricted assets are comprised of cash in bank that can be used only to repay customer deposits.

6. Capital Assets

Capital assets activity was as follows:

	Balance 7/1/2013	Additions	Deletions	Balance 6/30/2014
Capital assets not being depreciated:				
Land	\$ 152,648	-	-	152,648
Construction in progress	11,183	-	11,183	-
Total capital assets not being depreciated	163,831	-	11,183	152,648
Capital assets being depreciated:				
Structures & plant	11,397,820	-	-	11,397,820
Distribution system	5,861,110	99,257	-	5,960,367
Equipment, meters & mains	1,732,614	130,017	9,750	1,852,881
Total capital assets being depreciated	18,991,544	229,274	9,750	19,211,068
Less: Accumulated depreciation				
Structures & plant	4,322,430	326,293	-	4,648,723
Distribution system	2,924,123	150,203	-	3,074,326
Equipment, meters & mains	1,258,113	100,189	1,382	1,356,920
Total	8,504,666	576,685	1,382	9,079,969
Total capital assets being depreciated, net	10,486,878	(347,411)	8,368	10,131,099
Net capital assets	<u>\$ 10,650,709</u>	<u>(347,411)</u>	<u>19,551</u>	<u>10,283,747</u>

Construction in progress, totaling \$11,183 at June 30, 2013, consisted of costs accumulated to date for water main additions related to the Madison street project.

7. Long-Term Debt

The Utilities entered into Loan and Disbursement Agreements with the State of Iowa and the Iowa Department of Natural Resources (the "Department"), as a means of financing the construction of certain water and sewer treatment facilities of the Utilities. As a means of enabling the State and the Department to comply with the "continuing disclosure" requirements set forth in Rule 15c2-12 of the Securities and Exchange Commission, the Utilities agrees, during the term of the loans, to provide the Department with certain reports and other information as required. Original loans are detailed as follows:

\$2,750,000 Iowa State Revolving Loan Program Water Revenue Bond, Series 2005 due in annual payments of \$102,000 – 179,000 (currently \$126,000) to June 1, 2026, and interest at 3.00%. At June 30, 2014, the loan balance totaled \$1,840,000.

\$600,000 Iowa State Revolving Loan Program Sewer Revenue Bond, Series 2005 MC60R due in annual payments of \$20,000 – 40,000 (currently \$30,000) to June 1, 2025, and interest at 3.00%. At June 30, 2014, the loan balance totaled \$375,000.

\$202,000 Sludge Digestion Improvement Bond, Series 1998B due in annual payments of \$6,000 - \$15,000 (currently \$10,000) to June 1, 2018, and interest at 3.00%. At June 30, 2014, the loan balance totaled \$52,000.

\$358,000 Sewer Revenue Bond, Series 1998A due in annual payments of \$13,000 - \$25,000 (currently \$20,000) to June 1, 2018, and interest at 3.00%. At June 30, 2014, the loan balance totaled \$90,000.

\$990,000 Sewer Revenue Bond, Series 2009A due in annual payments of \$32,000 - \$57,000 (currently \$34,000) to June 1, 2030, and interest at 3.00%. At June 30, 2014, the loan balance totaled \$723,000.

The Utilities is also obligated under a 50% loan liability guarantee related to the financing for the purchase of 58 acres of land for a business park by the Emmetsburg Community Development Corporation ("ECDC"). The guarantee is for 50% of a \$685,000 direct and indirect loan from USDA Rural Development and Iowa Trust and Savings Bank, including 50% of interest due on those loans. During fiscal 2010, ECDC was unable to service the debt and the Utilities assumed 50% of the loan liabilities, which were recorded as a non-operating risk under loan guarantee expense of \$316,347 for fiscal 2010. Original loans under the guarantee are as follows:

\$485,000 USDA Rural Development, due in annual payments of \$12,894 to November 7, 2040 and interest at 4.125%. At June 30, 2014, the Utilities 50% of the loan balance totaled \$204,090.

\$200,000 Iowa Trust and Savings Bank, due in annual payments of \$7,977 to November 5, 2032 and variable interest at 6.75%. At June 30, 2014, the Utilities 50% of the loan balance totaled \$83,413.

Changes in long-term obligations for the years ended June 30, 2014 are as follows:

	Balance 7/1/2013	Additions	Reductions	Balance 6/30/2014	Amount Due Within One Year
Water Revenue Bonds:					
Series 2005	\$ 1,966,000	-	126,000	1,840,000	130,000
Sewer Revenue Bonds:					
Series 2005	405,000	-	30,000	375,000	30,000
Series 1998B	62,000	-	10,000	52,000	10,000
Series 1998A	110,000	-	20,000	90,000	20,000
Series 2009A	757,000	-	34,000	723,000	35,000
Obligations Under Guarantee:					
USDA Rural Development	207,420	-	3,330	204,090	4,316
Iowa Trust and Savings Bank	85,536	-	2,123	83,413	2,506
	<u>\$ 3,592,956</u>	<u>-</u>	<u>225,453</u>	<u>3,367,503</u>	<u>231,822</u>

Annual estimated debt service requirements related to the loans are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 231,822	104,674	336,496
2016	240,165	97,956	338,121
2017	252,489	91,054	343,543
2018	258,905	83,776	342,681
2019	229,305	76,345	305,650
2020-2024	1,245,305	272,108	1,517,413
2025-2029	713,126	91,667	804,793
2030-2034	127,176	25,934	153,110
2035-2039	54,505	8,872	63,377
2040-2041	14,705	1,801	16,506
	<u>\$ 3,367,503</u>	<u>854,187</u>	<u>4,221,690</u>

8. Employee Benefits and Other Postemployment Benefits (OPEB)

Health Insurance (Partial Self-Insurance)

The Utilities have purchased a health insurance policy with a \$3,000 deductible per individual and a \$6,000 per family co-insurance clause. The Utilities then self-insures \$2,750 of \$3,000 deductible.

Other Postretirement Benefits (OPEB)

The Utilities operates a single-employer retiree benefit plan, which provides medical/prescription drug benefits for retirees and their spouses. There are eight active and no retired members in the plan. Participants must be age 55 or older at retirement. The benefits are provided through a fully-insured plan with Wellmark Blue Cross Blue Shield of Iowa. Retirees under age 65 pay the same premium for the benefits as active employees and retirees are required to reimburse the Utilities for any premiums paid under the plan. The contribution requirements of plan members are established and may be amended by the Utilities.

The Utilities did not implement GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other Than Pensions. This is a departure from Generally Accepted Accounting Principles. The amount by which this departure would affect liabilities, net assets and expenses is not reasonably determinable.

9. Risk Management

The Utilities is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and, natural disasters. These risks are covered by the purchase of commercial insurance. The Utilities assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

10. Related Party Transactions

The Component Unit bills and collects for garbage and recycling services provided for the Primary Government to its residents. During the year ended June 30, 2014, the Component Unit billed \$437,760 in fees for the Primary Government.

Emmetsburg Municipal Utilities
Component Unit of the City of Emmetsburg, Iowa
Required Supplementary Information
Year Ended June 30, 2014

Budgetary Comparison Schedule of
Revenues, Expenses and Changes in Net Position -
Budget and Actual

	Actual	Budgeted Amounts Amended	Final to Actual Variance
Operating revenues	\$ 3,850,059	3,265,941	584,118
Operating expenses	3,585,909	4,136,626	(550,717)
Operating income	264,150	(870,685)	1,134,835
Non-operating revenues and (expenses)	(119,833)	(122,114)	2,281
Transfers to Primary Government	(173,223)	(207,223)	34,000
Net position at beginning of year	12,544,526	12,544,526	
Net position at end of year	\$ 12,515,620	11,344,504	

Notes To Required Supplementary Information - Budgetary Reporting

In accordance with the Code of Iowa, the City Council annually adopts a budget following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. One of the nine functions included the business type activities. Function disbursements required to be budgeted include disbursements for the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

Emmetsburg Municipal Utilities
Component Unit of the City of Emmetsburg, Iowa
Combining Schedule of Operating Expenses
Year Ended June 30, 2014

	Gas Fund	Water Fund	Sanitation Fund	Total
Personal services:				
Trustee fees	\$ 1,500	1,500	1,500	4,500
Office salaries	19,621	20,438	20,439	60,498
Plant labor	92,166	93,971	119,072	305,209
Extra labor	4,229	4,834	146	9,209
Overtime	4,067	6,933	7,058	18,058
IPERS	10,710	10,966	13,126	34,802
Payroll taxes	9,487	9,752	11,434	30,673
Total personal services	<u>141,780</u>	<u>148,394</u>	<u>172,775</u>	<u>462,949</u>
Contractual:				
Advertising	4,496	4,673	3,779	12,948
Professional	5,639	9,536	7,771	22,946
Insurance	9,881	25,863	31,497	67,241
Health insurance and risk fund	37,211	44,336	55,653	137,200
Analytical testing and contract	-	512	22,805	23,317
Regulatory commission	11,522	1,756	1,936	15,214
Conference and education	3,369	1,383	2,573	7,325
Regulation and compliance	1,421	648	854	2,923
Energy efficiency plan	22,955	-	-	22,955
Telecom system	41,101	-	-	41,101
Collection expense	125	-	-	125
Total contractual	<u>137,720</u>	<u>88,707</u>	<u>126,868</u>	<u>353,295</u>
Materials, supplies and maintenance:				
Cost of natural gas purchased	1,633,735	-	-	1,633,735
Maintenance supplies	4,163	4,567	8,237	16,967
Automotive supplies and expense	5,660	5,357	7,558	18,575
Other equipment supplies and expense	4,641	1,470	7,897	14,008
Computer maintenance and supplies	4,399	4,317	5,770	14,486
Chemicals	-	30,071	115	30,186
Maintenance and materials - mains	22,191	48,826	-	71,017
Treatment plant maintenance	-	6,906	-	6,906
Water well maintenance	-	66,392	-	66,392
Collection system maintenance	-	-	44,141	44,141
Lift station maintenance	-	-	31,612	31,612
Office supplies	6,626	7,157	6,382	20,165
Uniforms	1,494	809	1,230	3,533
Maintenance buildings and grounds	773	4,346	3,882	9,001
Miscellaneous	4,577	2,274	10,691	17,542
Total materials, supplies and maintenance	<u>1,688,259</u>	<u>182,492</u>	<u>127,515</u>	<u>1,998,266</u>

	<u>Gas Fund</u>	<u>Water Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
Utilities:				
Lift station power	\$ -	-	6,195	6,195
Telephone	3,690	3,715	4,392	11,797
Electric and Gas	4,445	37,258	60,285	101,988
Total utilities	<u>8,135</u>	<u>40,973</u>	<u>70,872</u>	<u>119,980</u>
Depreciation	<u>50,543</u>	<u>260,049</u>	<u>266,093</u>	<u>576,685</u>
Uncollectible accounts	<u>1,835</u>	<u>2,743</u>	<u>1,250</u>	<u>5,828</u>
Interfund services used:				
Administrative fees - Primary Government	39,208	14,849	14,849	68,906
Total interfund services used	<u>39,208</u>	<u>14,849</u>	<u>14,849</u>	<u>68,906</u>
Total operating expenses	<u>\$ 2,067,480</u>	<u>738,207</u>	<u>780,222</u>	<u>3,585,909</u>

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees
Emmetsburg Municipal Utilities
Emmetsburg, Iowa

We have audited the financial statements of the Emmetsburg Municipal Utilities, a component unit of the City of Emmetsburg, Iowa, as of and for the year ended June 30, 2014, and have issued our report thereon dated February 2, 2015. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Emmetsburg Municipal Utilities, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Emmetsburg Municipal Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Emmetsburg Municipal Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Emmetsburg Municipal Utilities' internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting I-A-14 and I-B-14. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2014, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings and Responses. While we have expressed our conclusions on the Utilities' responses, we did not audit the Utilities' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended for the information and use of the officials, employees and citizens of the City of Emmetsburg, Iowa and other parties to whom the Emmetsburg Municipal Utilities may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Emmetsburg Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Burdorf, Parrott And Associates, P.C.

Emmetsburg, Iowa
February 2, 2015

EMMETSBURG MUNICIPAL UTILITIES

Schedule of Findings and Responses

Year ended June 30, 2014

Part I: Findings Related to the Financial Statements

REPORTABLE CONDITIONS:

I-A-14 Segregation of Duties - During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. Over the past years, the Utilities has implemented various procedures to enhance their internal controls. However, due to time and staffing constraints, the Utilities is still unable to fully segregate receipt and posting functions, disbursement preparation and posting functions and reconciliation function from receipt and disbursement functions.

Recommendation - We realize that the limited number of office employees makes segregation of duties difficult. However, we recommend that the Utility officials continue reviewing operating procedures in order to obtain the maximum internal control possible under the circumstances.

Response and Corrective Action Planned - the Utilities will continue to review operating procedures and segregate employee duties to the extent financially feasible to maximize internal control. There will be no change until it is fiscally responsible to add additional staff.

Conclusion - Response accepted.

I-B-14 Financial Reporting – A key element of financial reporting is the ability of management to select and apply the appropriate accounting principles to prepare financial statements in accordance with generally accepted accounting principles. For the year ended June 30, 2014, management did not have the expertise internally to analyze complex transactions to ensure that all transactions were properly recorded in the accounting records. As a result, certain material adjustments were required as part of the audit process.

The existence of significant deficiencies or material weaknesses may already be known to management and may represent a conscious decision by management or those charged with governance to accept that degree of risk because of cost or other consideration. We understand that preparing financial statements for a government of your size is normally not preformed by the government's personnel because the cost of training and keeping up with extremely difficult accounting principles is prohibitive. However, we are responsible to communicate significant deficiencies and material weaknesses in accordance with professional standards regardless of management's decisions.

Recommendation – Since the Utilities' have determined that it is not cost effective to have a trained governmental accountant on staff to prepare the financial statements, they should implement an education policy to assist management's ability to review, approve and accept responsibility for the financial statements. This education should be directed toward recording complex transactions.

Response – Our education policy allows individuals charged with the accounting function to attend continuing education related to understanding and recording complex transactions.

Conclusion – Response accepted.

Part II: Other Findings Related to Required Statutory Reporting

- II-A-14 Official Depositories - A resolution naming official depositories has been adopted by the Utilities. The maximum deposit amounts stated in the resolution were not exceeded during the year.
- II-B-14 Certified Budget - Expenditures during the year ended June 30, 2014 did not exceed the budget for the year.
- II-C-14 Questionable Expenditures – There were no questionable expenditures that fell outside its established policy on such costs.
- II-D-14 Travel Expense - No expenditures of Utilities' money for travel expenses of spouses of Utilities officials or employees were noted.
- II-E-14 Business Transactions – Business transactions between the Utilities and Utilities' officials or employees are as follows:
- Board Members
- Nick Steinkamp
- K & W Electric, Inc. - Repairs & maintenance \$5,002 The cumulative transactions with K & W Electric, Inc. do not appear to represent a conflict of interest because there is no one within the community that does this type of repairs.
- II-F-14 Bond Coverage - Surety bond coverage of City officials and employees including the Utilities is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- II-G-14 Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-H-14 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities' investment policy were noted.
- II-I-14 Revenue Bonds / Notes - The Utilities has complied with all requirements of the Loan and Disbursement agreements.